


CONTRACT AUDIT FOLLOW-UP



One Book
Chapter 6.8

What is Contract Audit Follow-Up?



- **Definition - Contract Audit Follow-Up is a system of tracking and reporting designated audit reports.**
- **The reports coming under the cognizance of DCMC ACOs are issued by the Defense Contract Audit Agency (DCAA) and the DCMC Contractor Insurance/Pension Review (CIPR) teams.**

What is a “Reportable Audit?”

- **Definition** - A reportable audit is one which contains specific **findings and recommendations**, whether or not the findings are qualified, covering:
 - estimating systems surveys,
 - accounting systems reviews,
 - defective pricing reviews,
 - cost accounting standards (CAS) noncompliance issues, including CAS disclosure statements if they contain noncompliance issues.

Reportable Audits continued


■ **Other Reportable Audits:**

- Audits covering :
- internal controls, operational audits,
- incurred costs, settlement of final indirect cost rates,
- final price submissions, termination settlement proposals,
- equitable adjustment claims, hardship claims,
- and escalation claims, if reported costs or rates questioned or qualified equal **\$100,000** or more.

Reportable Audits continued



Other Reportable Audits -

-  **Audits for final indirect cost rates where the auditor cannot reach an agreement with the contractor and forwards the audit report to the cognizant ACO for decision.**

“Resolution”

Definitions -

- RESOLUTION - OCCURS WHEN THE AUDITOR AND THE CONTRACTING OFFICER AGREE ON THE ACTION TO BE TAKEN.**
- When agreement cannot be reached the contracting officer determines a course of action and establishes an appropriate, pre-negotiation position.**

Resolution continued

- The **ACO** shall document the resolution in writing as his/her pre-negotiation positions, indicating whether the Audit recommendations, in whole or in part, were accepted or whether the auditor has revised them.
- When the **ACO** fails to reach an agreement with the auditor on the report's findings/recommendations, he/she must document the reasons for the disagreement.
- All resolution documentation shall be retained for future legal reference and external audit actions.

Disposition

- **DISPOSITION** - Occurs when the **contractor** implements the audit recommendations or the contracting officer decision, or when
- The **contracting officer** negotiates a settlement and issues a supporting modification, or when
- The **contracting officer** issues a final decision under the Disputes Clause and the appropriate time (**90 days**) has elapsed without the **contractor** appealing to the **ASBCA.**

Disposition continued



- For **Cost Accounting Standards (CAS)** **noncompliance** reports, Disposition occurs when the audit report on the related Cost Impact Statement is received by the ACO.
- For **Final Overhead Rate Audit Reports**, disposition occurs when the ACO has negotiated all local issues with the contractor and a written agreement detailing the results of the negotiation has been signed by both parties and distribution has been made to the Defense Contract Audit Agency(DCAA).

Disposition continued



- The **ACO** shall disposition an audit report as soon as possible after resolution, but ordinarily not more than **twelve months from the date of the audit's issuance.**
- In accordance with, DoD Directive 7604.2, audit reports are overage if they have not been dispositioned and are over twelve months old (from the date of issuance) on the closing date of the semi-annual reporting period(I.e. 31 March and 30 September).

ACO Responsibilities



- The **ACO** shall resolve and disposition all audit reports (reportable and non-reportable). The **ACO** must **resolve** the audit within six months of its issue date, and **disposition** the audit within twelve months of the same date.
- **DCAA** - enters **reportable** audits into the MOCAS data base; however, it remains the ACO's responsibility to resolve and dispose of audits. ACO/CAFU monitor should ensure accuracy of MOCAS data base by verifying the status of all audits listed.

ACO Responsibilities continued

- The **ACO** and the **CAO CAFU MONITOR** (an individual appointed by the CAO Commander to evaluate and assess the CAO's compliance with DODD 7640.2 requirements) shall update all CAFU data in the MOCAS database and ensure all milestones are established and followed.

Tracking the Audits

- The **ACO** shall track all **reportable** audits from the date of receipt through final disposition.
- The **CAFU** shall review and administer the tracking systems.
- The **ACO** and **CAFU Monitor** shall ensure that all MOCAS database entries are current prior to the system's formulation of the **SEMI - ANNUAL CAFU REPORT.** Monthly review of the database is recommended as a means of achieving optimum currency of data.

SEMI-ANNUAL CAFU REPORT

- DoD Directive 7640.2 mandates the semi-annual reporting of the **“resolution/disposition”** status of all reportable audits.
- The reports shall cover the semi-annual reporting periods ending March 31 and September 30.
- The MOCAS system will automatically generate the report within 30 days of the close of the reporting period.

Audit Report Resolution



- The **ACO**, in accordance with Public Law 96-527, shall resolve differences between his/her position and the auditor's findings or recommendations in the audit report within **six-months after the issuance of the report.**

Recovery of Funds

- Any monetary amount due the Government as the result of a contract audit shall be determined by the **ACO** negotiating a settlement with the contractor or by the **ACO** issuing a unilateral decision when negotiations are unsuccessful. Upon completion of either action, the ACO shall promptly make a written demand for payment, citing the amount due, with a copy of the demand provided to the payment office cited in the contract. **(FAR 32.606 and DFARS 232.606)**

Audit Type by Code



- | <u>Code</u> | <u>Audit type</u> |
|--------------------|--|
| A | Estimating System Survey |
| B | Accounting and Related Internal Control System Reviews |
| C1 | Claims |
| D | Defective Pricing Review |
| E | Cost Accounting Standards Noncompliance and Cost Impact Statement Reviews |
| F1 | Operations Audit |

Audit Type by Code continued



<u>CODE</u>	<u>AUDIT TYPE</u>
G1	Incurred Costs and Settlement of
Final	Indirect Cost Rates
H2	Contractor Insurance/Pension
	Reviews
I1	Final Pricing
J1	Terminations

Audit terminology



- **Closed Audit Report** - An Audit report that has been dispositioned by the contracting officer and closed for follow-up tracking purposes.
- **Contract Audit Report** -The contract auditor's written advice to a contracting officer advocating specific action on the part of the contracting officer or contractor and/or including highly qualified or adverse opinion information. The report may also include amounts questioned or disapproved, exceptions to a contractor's system or operations, recommended price adjustments.

AUDIT TERMINOLOGY continued

- **COSTS QUESTIONS** - The amount questioned in the audit report that the reporting contracting officer or auditor has responsibility and authority to disposition.
- **COSTS QUESTIONED SUSTAINED** - That portion of the Costs Questioned by the Auditor that is upheld as a result of actions taken by either the contractor or the contracting officer.
- **HIGHLY QUALIFIED OPINION REPORT** - One for which the contractor provided cost or pricing data is significantly inadequate, access to records has been denied, or a noncompliance with CAS standards or acquisition regulations exists. The audit report must specifically state that the results of audit are HIGHLY qualified.

AUDIT TERMINOLOGY CONTINUED

- **LITIGATION** - An audit report is in litigation any time an appeal has been filed with the ASBCA, the United States Court of Federal Claims or any other Federal or State Court concerning matters dealing with a specific contractor identified in the report. It is also considered to be in litigation when the Federal Government has filed an appeal with the courts, or there is other ongoing judicial action that has bearing on matters or issues identified in the report.
- **OPEN AUDIT REPORT** - An audit report that has not been dispositioned.

AUDIT TERMINOLOGY CONTINUED



- **Original Audit Report Date** - the date of the original audit report that first identified any issue that is still open and included in a superseding or supplemental audit report.
- **Overage Audit Report** - An audit report that has not been dispositioned and is over 12 months old (from the date of issuance) on the closing date of the semi-annual reporting periods ending March 31 and September 30.
- **Reports Involved in Investigation** - An audit report is considered to be involved in an investigation when deferral of resolution or disposition action has been requested by an investigative agency of the U.S. Government.